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[12](#). (U) The Japan Economic Scope (JES) is a weekly e-newsletter produced by Embassy Tokyo's ECON section in collaboration with other sections and constituent Posts and published every Friday. It provides a brief overview of recent economic developments, insights gleaned from contacts, summaries of the latest cables and a list of upcoming visitors. This cable contains the November 2, 2006, JES, minus the attachments that accompany many of the individual stories in the e-mail version. To be added to the e-mail list, please email ProgarJ@state.gov.

[13](#). (U) Keidanren to Call for FTA with U.S.

The Japan Business Federation (Nippon Keidanren) will

formally propose later this month that the GOJ negotiate an Economic Partnership Agreement with the U.S. according to media reports. This is the first time the Federation has taken a formal position on this issue.

The stories also said Keidanren chairman Fuijo Miterai plans to travel to the U.S. early next year to discuss the proposal with U.S. governmental and business leaders.

Among the priorities Keidanren reportedly will include in its proposal are, unification of rules for protection of intellectual property rights and environmental standards as well as streamlining of investment rules, business licensing and business travel regulations.

On the agricultural issue, the reports said Keidanren would call for measures to ensure "food security" in line with expected greater market opening for U.S. agricultural products.

We note the inconsistency of Keidanren urging a closer economic partnership with the U.S. at the same time it is urging the GOJ to tighten regulation of cross border M&A (see JES 10/27/06) and will explore this inconsistency and seek other details of Keidanren's proposal in meetings with senior Federation officials in the weeks ahead.

14. (SBU) Embassy Meets with GOJ Officials on Triangular Merger Issues

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Econ Section met this week with both METI and MOJ officials working directly in the triangular mergers issue and began outreach to Diet members to impress on them the importance to Japan's investment climate of allowing a variety of cross border M&A.

METI has taken a very public position opposing Keidanren's proposal for strict controls on the use of foreign stocks in triangular mergers.

Mid-level METI officials in the International Organizations Bureau are in daily contact with Embassy. They confirmed to us that Keidanren is split on the issue, with Federation Chairman Mitarai and two key Vice Chairmen (including one representing the steel industry) the strongest supporters.

Mitarai told METI the issue has become a "symbol" of the threat of hostile takeovers and that he believes many Japanese companies have not yet implemented appropriate defensive measures.

Senior METI officials, including Minister Amari have met with Mitarai and told him directly METI cannot support the Federation's position. The two sides have "agreed to disagree."

MOJ, which is responsible for drafting and implementing the governmental ordinances on the 2005 Company Law, is taking a far more cautious stand.

The Ministry has made no public statements and at the October 31 Investment working group DVC, MOJ representatives would only say they are awaiting the outcome of public discussion on the issue and were "willing to listen to all sides."

Privately, however, they were more forthcoming. Senior attorneys in the Ministry's Civil Affairs

Bureau told us the relevant ordinance was finalized month ago. No further action is necessary to allow cross border triangular merger regulations to take effect as of May 1, 2007. An MOJ official made clear this was the Ministry's preferred outcome. "We had expected it would be in effect by this time."

The one-year delay in implementation was a political compromise between the government and the LDP at the behest of Keidanren. The same MOJ official appealed for understanding of the "difficult position the Ministry is in" now that Keidanren has renewed its opposition to the rule. He could not rule out a new political decision within the ruling party acceding to Keidanren's request, which MOJ would have to follow.

Meanwhile, the Econ Section has begun outreach to Diet members on the LDP Judicial Affairs Committee and its Commercial Law subcommittee. Mitarai will reportedly meet with relevant Vice Chairs as early as the 13th to discuss this issue with a policy council meeting possible on November 21.

15. (U) Louisiana Governor Leads Trade Mission to Japan

Louisiana Governor Kathleen Blanco arrived in Japan October 31 on a trade mission.

Her delegation is meeting with GOJ and senior corporate officials here to drum up business for Louisiana and to inform the Japanese of financial incentives set up to attract investment in the state after Hurricane Katrina.

Key sections from the Embassy briefed the Governor and several officials from the Louisiana Office of

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Business Development on November 1 at the outset of their visit.

16. (SBU) DPJ Member and Agriculture Expert Matsushita Voices Support for Cooperation on Food Safety

EMIN met with Upper House member Shinpei Matsushita on November 3 and raised possible collaboration between the U.S. and Japan on adopting food safety measures based on sound science and international standards.

EMIN explained that the issue, already a point of concern for U.S. exporters, is something their Japanese counterparts could face in third countries if the GOJ's effort to expand food exports is successful.

Matsushita welcomed the idea saying that it was important for the two countries to collaborate on a bilateral level.

He acknowledged countries should observe international standards in general, but also pointed out the need to offer special differential treatment for developing countries, as these countries need such measures to protect specific agriculture commodities.

Matsushita who is a member of the Upper House Committee on Agriculture, participated in a May 2006 Embassy program that sent four younger Diet Members to Washington on a five day study program. Pictures from the trip take up a prominent place in Matsushita's office.

17. (U) MAFF Needs to Reduce Stocks of Imported Rice, Board of Audit Says

The Board of Audit, Japan's equivalent of the GAO, reports that the expanding inventory of imported rice has become a financial burden -- 2 mmt costing roughly \$144 million annually -- and is urging the Ministry of Agriculture, Forestry and Fisheries (MAFF) to take action to reduce it.

In response, in July MAFF started to release old import stocks to the feed sector, given its mandate to keep imported rice out of the food/table market. MAFF expects to release about 25,000 mt per month through June 2007. U.S. rice makes up 63.5 percent of MAFF's stocks.

18. (U) Central Bank Holds Steady on Previous Growth Forecast

In their semi-annual "Outlook for Economic Activity and Prices," Bank of Japan (BOJ) Policy Board members maintained their assessment laid out in last April's report, noting that "Japan's economy is likely to achieve sustainable growth under price stability."

The BOJ's core CPI inflation and growth projections were more or less in line with those of private analysts. Board members projected "core" CPI increases of 0.3 percent in FY06 (April 2006 to March 2007) and 0.5 percent in FY07. They also projected real GDP growth of 2.4 percent in FY06 and 2.1 percent in FY07.

In the "Outlook," Board members expressed the view that Japan's positive output gap is "increasing at a moderate pace," and projected that over time the growth rate is likely to slow toward its potential growth rate of about 1.5-2.0 percent.

19. (U) Japan's Core Consumer Price Growth Decelerates Slightly to 0.2% in September

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Japan's nationwide "core" CPI (excluding perishable food items), rose 0.2 percent in September from the year before, having increased 0.3 percent in August, the Ministry of Internal Affairs and Communication (MIC) announced October 27.

110. (SBU) Slight Rise in Unemployment Seen as Within Normal Volatility

The seasonally adjusted unemployment rate ticked up slightly in September to 4.2 percent. Noting that voluntary employment departures rose while job-related departures fell, one private sector analyst argued the rise was within normal monthly volatility and called it a sign of the labor market's tightness. His analysis continues to forecast unemployment eventually falling below 4 percent.

111. (U) United Airlines Begins 1st Non-stop Narita-DC Service; Amb. Attends Ceremony

United Airlines inaugurated its first Tokyo-Washington Dulles daily non-stop service from Narita on October

128. Amb. Schieffer attended the ceremony at the invitation of United.

This route will replace United's Narita-New York service and allow United to use its Dulles hub, routing more passengers onto other United flights to

other U.S. destinations.

¶12. (U) American Chamber of Commerce Japan Pushes for Expanded BizAir

The American Chamber of Commerce in Japan (ACCJ) issued a policy paper this week calling on the Japanese government to support the growth of business aviation in Japan. Business aviation in Japan lags behind other countries, and the ACCJ paper urges the GOJ and the Ministry of Land, Infrastructure and Transport (MLIT) to revise policies and regulations that restrict the development of business aviation here.

¶13. (U) Road Transport Vehicle Law - Devil Is In The Details

Representatives from General Electric's Fleet Vehicle Division told Econoff, while legislation amending the Road Transport Vehicle Law (RTVL) was passed in May 2006 that allows "one stop omnibus" registration of fleet vehicles, MLIT has given itself five plus years to develop and roll-out the actual implementation, leaving fleet owners stuck with a registration system with which they cannot comply.

This issue continues to be a subject of bilateral discussions in the U.S. - Japan Regulatory Reform talks. GE plans to continue to lobby for early implementation of the law and has also submitted a viewpoint on the issue that will be incorporated in ACCJ's business whitepaper.

¶14. (U) Former Amb. Makoto Taniguchi on Japan, Asia and FTA

Professor Makoto Taniguchi -- currently a president of Iwate Prefectural University and formerly Deputy Secretary-General of the OECD and Ambassador

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Extraordinary and Plenipotentiary and Deputy
Representative of Japan to the UN -- gave a talk on

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the East Asian Community and Sino-Japanese relation at the International Economic Research Center on October 20th.

He said that the lack of coordination in the recent years between Japan and China is the reason why an East Asian Community has not been realized. He noted that Japan is mainly to blame for the situation in Asia, and the absence of a long-term foreign policy by MOFA is the fundamental reason that Japan is and will be falling behind in the wave of FTAs.

For Asian regionalism, he said that ASEAN+3 is the original formation that should be pursued and countries such as Australia, New Zealand and India should remain as observers. They are not "East Asian" countries.

¶15. (U) Microsoft Helping to Upgrade Sapporo's IT Industry

Microsoft Japan is creating a special training program in Sapporo on embedded software essential for upgrading mobile phone and digital electric appliances.

In collaboration with the city of Sapporo and the Sapporo Electronics and Industries Cultivation Foundation, Microsoft is now providing direct training to local software engineers who will eventually take over teaching of the course. Beginning in 2007, the training program plans to graduate 30 new software engineers every year.

This is the first time Microsoft is offering such a training program in Japan. The company and local leaders hope the program will help encourage long term development of Sapporo's IT community and slow the trend towards outsourcing to China.

Specifically, Sapporo Mayor Ueda hopes that over ten years, the program will help create 600 companies, 30,000 employees and sales of \$85 billion for Hokkaido IT-related industries.

If successful, Microsoft plans to expand this training program to other parts of Japan.

SCHIEFFER